

Message Text

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FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC IMMEDIATE 4477

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OPIC

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TAGS: EINV, IR

SUB: APPLICATION FOR OPIC POLITICAL RISK INSURANCE

265-74-406 (STARRETT HOUSING CORP.)

REF: STATE 265977

1. STARRETT'S REPRESENTATION OF HOUSING PROJECT OUTLINED AS ONE WHICH ENJOYS ENTHUSIASTIC GOVERNMENT SUPPORT IS SOUND ASSESSMENT. PROJECT HAS GARNERED GOOD DEAL OF PUBLICITY BECAUSE OF HIGH VISIBILITY FIGURATIVELY AS PILOT PROJECT IN FURTHEREST-ADVANCED OF NEW-CITY PROJECTS, HIGH VISIBILITY (LITERALLY, BECAUSE OF ITS GEOGRAPHIC LOCATION ON EDGE OF WESTERN CITY LIMITS OF TEHRAN), AND PROMINENCE OF LOCAL INTERESTS INVOLVED. PRESTIGE OF MINISTRY OF HOUSING AND TOWN PLANNING IS ON LINE AND IT CAN REASONABLY BE ASSUMED GOVERNMENT WILL DO ALL POSSIBLE TO INSURE SUCCESS IN INITIAL FORAY INTO INNOVATIVE TOWN PLANNING ON SCALE ENVISAGED.

2. WITH REGARD TO PRICE CONTROLS ON SALES OF CONDOMINIUM UNITS, EMBASSY IS NOT AWARE OF SPECIFIC PLANS TO EXTEND CONTROLS TO COVER SALE OF REAL PROPERTY. AT THE MOMENT, REAL PROPERTY NOT RPT NOT SUBJECT TO PRICE CONTROLS. THIS QUESTION HAS INEVITABLY COME TO MIND, HOWEVER, IN CONNECTION WITH ANTI-INFLATION CAMPAIGN OF LAST 4-5 MONTHS AND WAS RAISED AT HOUSING STUDY GROUP MEETING (US-IRAN JOINT UNCLASSIFIED

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COMMISSION-ECONOMY AND FINANCE COMMITTEE) IN TEHRAN IN

SEPTEMBER.

3. GOI DELEGATES EXPRESSED BELIEF THAT SUCH CONTROLS WOULD NOT ENTER SCENE HERE BUT NOTED, THAT IN ANY CASE, MINISTRY WOULD NOT BE INITIATOR AND SUCH A DECISION WOULD BE MADE AT A VERY HIGH LEVEL. AS IN THE CASE OF CONSUMER AND INDUSTRIAL GOODS, CONTROLS COULD BE IMPOSED ARBITRARILY OVERNIGHT.

4. REQUIREMENT FOR 49 PERCENT WORKER PARTICIPATION IN SHARE HOLDING IS, ACCORDING TO PUBLIC DISCUSSION BY GOVERNMENT OFFICIALS, APPLICABLE ONLY IN MANUFACTURING FOR THOSE STOCK COMPANIES WHICH MEET CERTAIN CAPITALIZATION AND SIZE CRITERIA. SERVICE (I.E., NON-MANUFACTURING) VENTURES AS SUCH DO NOT COME UNDER THE PROVISIONS AS PRESENTED INFORMALLY AT THIS TIME.

5. CURRENT REGULATIONS PERMIT SERVICE COMPANIES (CONSTRUED TO INCLUDE CONSTRUCTION/ENGINEERING MANAGEMENT-CONSULTANT FIRMS) TO OPERATE IN IRAN AS BRANCH OFFICES OF THE PARENT COMPANY. POSSIBILITY THAT 49 PERCENT PARTICIPATION WOULD BE APPLIED TO STARRETT AFFILIATES APPEARS TO REST ON TWO QUESTIONS: (A) INTERPRETATION OF ACTIVITIES IN WHICH AFFILIATES ENGAGE; E.G., IF MANUFACTURING LOCALLY OF SOME COMPONENT OF BUILDING SYSTEMS IS UNDERTAKEN, THAT VENTURE MIGHT THEN BE CATEGORIZED AS MANUFACTURING AND SUBJECT TO FOREIGN MINORITY SHAREHOLDING REGULATIONS AND, SUBSEQUENTLY, TO 49 PERCENT RULING IF IT MEETS OTHER CRITERIA AND (B) BROADER QUESTION OF CHANGE OF RULING REGARDING STATUS OF SERVICE VENTURES VS. MANUFACTURING. RATIONALE FOR REQUIRING MAJORITY IRANIAN PARTICIPATION IN JOINT MANUFACTURING VENTURES IS NOT APPLICABLE TO SERVICE/MANAGEMENT TYPE CONTRACTS AND WE SEE NO EVIDENCE THAT GOI WOULD PERCEIVE ECONOMIC BENEFIT IN APPLYING EQUITY PARTICIPATION LIMITATIONS TO SERVICE ORGANIZATIONS, ALTHOUGH THE POSSIBILITY THAT CONTINUING PUSH FOR A COSEMIC "IRANIZATION" OF THE ECONOMY WOULD OVERCOME ECONOMIC RATIONALE. BY AN EXTENSION OF THE SAME ARGUMENT, SERVICE INDUSTRIES WHICH ARE PROJECT ORIENTED WITH A PREPONDERANCE OF TECHNICALLY-SKILLED PERSONNEL DO NOT LEND THEMSELVES

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TO THE KIND OF WORKER PARTICIPATION ENVISAGED IN 49 PERCENT MANUFACTURING VENTURES, THE PROTOTYPE OF WHICH IS IRAN NATIONAL CORP., WHICH MASS-ASSEMBLES AUTOMOBILES AND TRUCKS.

6. AS DEPARTMENT AWARE, FULL IMPLEMENTING REGULATIONS CONCERNING BOTH PRICE CONTROLS AND 49 PERCENT PUBLIC OWNERSHIP HAVE YET TO BE PUBLISHED BY THE MINISTRY

OF ECONOMIC AFFAIRS AND FINANCE, WHICH REPORTEDLY PREPARING LEGISLATION FOR PUBLICATION.

7. THE EMBASSY'S BEST JUDGMENT AT THIS TIME IS THAT STARRETT'S AFFILIATES WOULD NOT BE AFFECTED BY THE TWO QUESTIONS MENTIONED. IN BOTH INSTANCES, THE GOVERNMENT IS ENTERING A TRIAL PERIOD AND IT WILL BE SOME TIME BEFORE THE FULL EFFECTS F CURRENT PRICE CONTROLS CAN BE EVALUATED AND AN EVEN LONGER PERIOD BEFORE THE SUCCESS OF 49 PERCENT PUBLIC OWNERSHIP CAN BE JUDGED. PRESUMABLY, THE GOVERNMENT WILL WISH O SEE WHAT ENSUES FROM THESE TWO MEASURES IN THEIR CURRENT FORM BEFORE PROCEEDING FURTHER DOWN THE ROAD WITH EITHER ONE.
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